

VILLAGE OF NORTH ADAMS

AUDIT REPORT

FEBRUARY 29, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Name (Specify) <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other			County <u>Hillsdale</u>
Audit Date <u>2/29/04</u>	Opinion Date <u>1/21/05</u>	Date Accountant Report Submitted to State: <u>2/18/05</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).	✓		
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <u>Bailey, Hodshire & Company, PC</u>			
Street Address <u>P.O. Box 215</u>	City <u>Jonesville</u>	State <u>MI</u>	Zip <u>49250</u>
Accountant Signature <u>Kelly Hodshire</u>			

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INDEPENDENT AUDITOR'S REPORT

To the President and
Members of the Village Council
Village of North Adams, Michigan

We have audited the accompanying general purpose financial statements of the Village of North Adams as of and for the year ended February 29, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the Village of North Adams' management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general purpose financial statements referred to above do not include the general fixed assets group of accounts which should be included to conform with generally accepted accounting principles. The amount that should be recorded in the general fixed assets group of accounts is unknown.

In our opinion, except for the omission of the general fixed assets group of accounts which results in an incomplete presentation, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Village of North Adams as of February 29, 2004, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated January 21, 2005, on our consideration of the Village of North Adams' internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Village of North Adams. The information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Bailey, Hodshire & Company PC
Jonesville, Michigan
January 21, 2005

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REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the President and
Members of the Village Council
Village of North Adams, Michigan

We have audited the general purpose financial statements of the Village of North Adams as of and for the year ended February 29, 2004, and have issued our report thereon dated January 21, 2005. In our report, our opinion was qualified because the general purpose financial statements do not include the general fixed asset group of accounts. Except for the aforementioned issue, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of North Adams' general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Village of North Adams in a separate letter dated January 21, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of North Adams' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village of North Adams' ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

Village Council
Village of North Adams

The reportable condition is described as follows:

1. There is no system to provide complete and accurate accounting output for the wastewater disposal system consistent with objectives and current needs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to the management of the Village of North Adams in a separate letter dated January 21, 2005.

This report is intended for the information of the Village Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bailey, Hodshue & Company, PC

Jonesville, Michigan
January 21, 2005

VILLAGE OF NORTH ADAMS
COMBINED BALANCE SHEET-ALL FUND TYPES
FEBRUARY 29, 2004

	<u>Governmental Fund Types</u>			<u>Proprietary Fund Types</u> Wastewater Disposal System	Total (Memo Only)
	<u>General Fund</u>	<u>Major Street</u>	<u>Local Street</u>		
ASSETS					
Cash	\$ 514,066	\$ 29,808	\$ (889)	\$ 174,010	\$ 716,995
Taxes/Assessments Receivable	7,374	0	0	10,229	17,603
Accounts Receivable	0	0	0	13,971	13,971
Due From State	9,070	6,082	1,621	0	16,773
Restricted Assets	0	0	0	305,487	305,487
Due From Other Funds	18,970	0	8,000	0	26,970
Prepaid Insurance	3,928	0	0	0	3,928
Land	0	0	0	35,062	35,062
Wastewater Disposal System	0	0	0	2,324,906	2,324,906
Equipment	0	0	0	104,683	104,683
Less: Accum. Depreciation	<u>0</u>	<u>0</u>	<u>0</u>	<u>(728,472)</u>	<u>(728,472)</u>
Total Assets	<u>\$ 553,408</u>	<u>\$ 35,890</u>	<u>\$ 8,732</u>	<u>\$2,239,876</u>	<u>\$2,837,906</u>
LIABILITIES					
Due to Other Funds	\$ 8,000	\$ 15,156	\$ 2,598	\$ 1,216	\$ 26,970
Payroll Taxes Payable	1,989	0	0	0	1,989
Accounts Payable	3,215	0	0	1,119	4,334
Accrued Interest Payable	0	0	0	14,688	14,688
Bonds Payable	<u>0</u>	<u>0</u>	<u>0</u>	<u>750,000</u>	<u>750,000</u>
Total Liabilities	<u>\$ 13,204</u>	<u>\$ 15,156</u>	<u>\$ 2,598</u>	<u>\$ 767,023</u>	<u>\$ 797,981</u>
OTHER CREDITS					
Contributions in Aid of Construction	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	<u>\$1,151,155</u>	<u>\$1,151,155</u>
FUND BALANCES AND RETAINED EARNINGS					
Unreserved/Undesignated	<u>\$ 540,204</u>	<u>\$ 20,734</u>	<u>\$ 6,134</u>	<u>\$ 321,698</u>	<u>\$ 888,770</u>
Total Liabilities, Credits, and Fund Balances	<u>\$ 553,408</u>	<u>\$ 35,890</u>	<u>\$ 8,732</u>	<u>\$2,239,876</u>	<u>\$2,837,906</u>

The accompanying notes are an integral part of this statement.

**VILLAGE OF NORTH ADAMS
COMBINED STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED FEBRUARY 29, 2004**

Governmental Fund Types

	General Fund	Major Street	Local Street	Total (Memo Only)
REVENUE				
Property Tax	\$ 68,933	\$ 0	\$ 0	\$ 68,933
State Shared Revenue	54,043	32,774	8,671	95,488
Rents and Royalties	21,986	0	0	21,986
Interest Earned	9,816	186	62	10,064
Fire Service	21,000	0	0	21,000
Refunds and Other	4,081	0	0	4,081
Total Revenue	<u>\$ 179,859</u>	<u>\$ 32,960</u>	<u>\$ 8,733</u>	<u>\$ 221,552</u>
EXPENDITURES				
Village Council	\$ 4,340	\$ 0	\$ 0	\$ 4,340
Clerk	4,200	0	0	4,200
Treasurer	2,800	0	0	2,800
Contracted Services - Audit/Legal	1,188	0	0	1,188
Building & Grounds	15,111	0	0	15,111
Administrative Expenses	3,044	0	0	3,044
Fire Department	8,495	0	0	8,495
Public Works	45,527	0	0	45,527
Street Lighting & Maintenance	15,672	49,869	2,785	68,326
Sanitary Landfill	5,435	0	0	5,435
Recreation & Culture	3,100	0	0	3,100
Promotion	207	0	0	207
Payroll Tax Expense	6,638	0	0	6,638
Dues & Subscriptions	415	0	0	415
Insurance - Property	26,273	0	0	26,273
Insurance - Health & Life	16,512	0	0	16,512
Capital Outlay	20,771	0	0	20,771
Miscellaneous Expense	2,293	0	0	2,293
Total Expenditures	<u>\$ 182,021</u>	<u>\$ 49,869</u>	<u>\$ 2,785</u>	<u>\$ 234,675</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>\$ (2,162)</u>	<u>\$ (16,909)</u>	<u>\$ 5,948</u>	<u>\$ (13,123)</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	\$ 0	\$ 0	\$ 0	\$ 0
Transfers To Other Funds	0	0	0	0
Net Other Financing Sources (Uses)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Change in Fund Balances	<u>\$ (2,162)</u>	<u>\$ (16,909)</u>	<u>\$ 5,948</u>	<u>\$ (13,123)</u>
FUND BALANCES - March 1, 2003	<u>542,366</u>	<u>37,643</u>	<u>186</u>	<u>580,195</u>
FUND BALANCES - February 29, 2004	<u><u>\$ 540,204</u></u>	<u><u>\$ 20,734</u></u>	<u><u>\$ 6,134</u></u>	<u><u>\$ 567,072</u></u>

The accompanying notes are an integral part of this statement.

VILLAGE OF NORTH ADAMS
COMBINED STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED FEBRUARY 29, 2004

GENERAL FUND

	Budget	Actual	Over (Under) Budget
REVENUE			
Property Tax	\$ 86,000	\$ 68,933	\$ (17,067)
State Shared Revenue	60,000	54,043	(5,957)
Rents and Royalties	52,550	21,986	(30,564)
Interest Earned	15,000	9,816	(5,184)
Fire Service	33,500	21,000	(12,500)
Refunds and Other	<u>345</u>	<u>4,081</u>	<u>3,736</u>
Total Revenue	<u>\$ 247,395</u>	<u>\$ 179,859</u>	<u>\$ (67,536)</u>
EXPENDITURES			
Village Council	\$ 7,000	\$ 4,340	\$ (2,660)
Clerk	4,200	4,200	0
Treasurer	2,800	2,800	0
Contracted Services - Audit/Legal	7,500	1,188	(6,312)
Building & Grounds	16,150	15,111	(1,039)
Administrative Expenses	5,200	3,044	(2,156)
Elections	800	0	(800)
Fire Department	42,900	8,495	(34,405)
Public Works	53,300	45,527	(7,773)
Street Lighting & Maintenance	22,500	15,672	(6,828)
Sanitary Landfill	5,000	5,435	435
Recreation and Culture	13,650	3,100	(10,550)
Promotions	0	207	207
Payroll Tax	5,000	6,638	1,638
Dues & Subscriptions	0	415	415
Insurance - Property	30,000	26,273	(3,727)
Insurance - Health & Life	15,000	16,512	1,512
Capital Outlay	166,450	20,771	(145,679)
Miscellaneous Expense	<u>2,200</u>	<u>2,293</u>	<u>93</u>
Total Expenditures	<u>\$ 399,650</u>	<u>\$ 182,021</u>	<u>\$(217,629)</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>\$(152,255)</u>	<u>\$ (2,162)</u>	<u>\$ 150,093</u>
OTHER FINANCING SOURCES (USES)			
Transfer From Other Funds	\$ 0	\$ 0	\$ 0
Transfers To Other Funds	<u>0</u>	<u>0</u>	<u>0</u>
Net Other Financing Sources (Uses)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Change in Fund Balances	<u>\$(152,255)</u>	<u>\$ (2,162)</u>	<u>\$ 150,093</u>
FUND BALANCES - March 1, 2003	<u>542,366</u>	<u>542,366</u>	<u>0</u>
FUND BALANCES - February 29, 2004	<u>\$ 390,111</u>	<u>\$ 540,204</u>	<u>\$ 150,093</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF NORTH ADAMS
COMBINED STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
ALL GOVERNMENTAL FUND TYPES (continued)
FOR THE YEAR ENDED FEBRUARY 29, 2004

MAJOR STREET			LOCAL STREET		
Budget	Actual	Over (Under) Budget	Budget	Actual	Over (Under) Budget
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
31,500	32,774	1,274	7,500	8,671	1,171
0	0	0	0	0	0
750	186	(564)	300	62	(238)
0	0	0	0	0	0
0	0	0	0	0	0
<u>\$ 32,250</u>	<u>\$ 32,960</u>	<u>\$ 710</u>	<u>\$ 7,800</u>	<u>\$ 8,733</u>	<u>\$ 933</u>
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
55,920	49,869	(6,051)	13,980	2,785	(11,195)
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
<u>\$ 55,920</u>	<u>\$ 49,869</u>	<u>\$ (6,051)</u>	<u>\$ 13,980</u>	<u>\$ 2,785</u>	<u>\$ (11,195)</u>
\$ (23,670)	\$ (16,909)	\$ 6,761	\$ (6,180)	\$ 5,948	\$ 12,128
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
0	0	0	0	0	0
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
\$ (23,670)	\$ (16,909)	\$ 6,761	\$ (6,180)	\$ 5,948	\$ 12,128
37,643	37,643	0	186	186	0
<u>\$ 13,973</u>	<u>\$ 20,734</u>	<u>\$ 6,761</u>	<u>\$ (5,994)</u>	<u>\$ 6,134</u>	<u>\$ 12,128</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF NORTH ADAMS
COMPARATIVE STATEMENTS OF REVENUE, EXPENSES
AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND - WASTEWATER DISPOSAL SYSTEM
FOR THE YEARS ENDED FEBRUARY 29, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUE		
Service Charges - User Fees	\$ 81,941	\$ 85,548
Sewer Connection Fees and Interest	<u>44,459</u>	<u>43,496</u>
Total Operating Revenue	<u>\$ 126,400</u>	<u>\$ 129,044</u>
OPERATING EXPENSES		
Repairs and Maintenance		
Wages	\$ 2,747	\$ 2,413
Contracted Services	11,907	9,372
Utilities	713	0
Legal and Accounting Fees	8,322	8,082
Dues and Subscriptions	2,745	1,754
Depreciation	257	311
Office and Operating Supplies	70,761	70,264
Payroll Taxes	804	991
Miscellaneous Expense	911	717
Total Operating Expenses	<u>409</u>	<u>0</u>
	<u>\$ 99,576</u>	<u>\$ 93,904</u>
OPERATING INCOME	<u>\$ 26,824</u>	<u>\$ 35,140</u>
NON-OPERATING REVENUE (EXPENSE)		
Interest Earned on Savings Deposits	\$ 4,658	\$ 6,947
Interest Expense	<u>(45,678)</u>	<u>(49,005)</u>
Total Non-Operating Revenue (Expense)	<u>\$ (41,020)</u>	<u>\$ (42,058)</u>
NET INCOME (LOSS)	<u>\$ (14,196)</u>	<u>\$ (6,918)</u>
RETAINED EARNINGS - March 1	<u>335,894</u>	<u>342,812</u>
RETAINED EARNINGS - February 29	<u><u>\$ 321,698</u></u>	<u><u>\$ 335,894</u></u>

The accompanying notes are an integral part of this statement.

VILLAGE OF NORTH ADAMS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND - WASTEWATER DISPOSAL SYSTEM
FOR THE YEAR ENDED FEBRUARY 29, 2004

	Proprietary Fund Type <u>Wastewater Disposal System</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating Income	\$ 26,824
Adjustments to Reconcile Net Income to Net Cash Flows From Operating Activities	
Depreciation Expense	\$ 70,761
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(1,570)
Increase in Taxes Receivable	(728)
Decrease in Due From General Fund	414
Increase in Due to General Fund	1,216
Increase in Accounts Payable	<u>359</u>
Total Adjustments	<u>70,452</u>
Net Cash Provided By (Used For) Operating Activities	\$ 97,276
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of Capital Assets	\$ (12,093)
Principal Paid on General Obligation Bonds	(60,000)
Interest Paid on General Obligation Bonds	<u>(46,853)</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	(118,946)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Received on Investments	\$ <u>4,658</u>
Net Cash Provided By (Used For) Investing Activities	<u>4,658</u>
NET INCREASE (DECREASE) IN CASH	\$ (17,012)
CASH AND CASH EQUIVALENTS - March 1, 2003	<u>496,509</u>
CASH AND CASH EQUIVALENTS - February 29, 2004	<u><u>\$ 479,497</u></u>

The accompanying notes are an integral part of this statement

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Village of North Adams is located in Hillsdale County, Michigan. It has a population of approximately 514 residents and is governed by a seven-member council with a President as its head. As required by generally accepted accounting principles, these financial statements present all fund types and account groups that are controlled by or dependent on the Village Council.

Basis of Presentation

The accounts of the Village are organized on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The various funds and account groups of the Village are as follows:

Governmental Funds

General Fund - The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - The Major and Local Street Funds are used to account for specific revenue and expenditures legally restricted for specific purposes, namely major and local street activities. There is currently one bank account used to account for both major and local street activities.

Proprietary Funds

Enterprise Funds - Enterprise Funds report operations which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy management control or other purposes. Only Financial Accounting Standards Board Statement B issued prior to November 30, 1989, have been applied to the proprietary funds.

Account Groups

General Fixed Asset Account Group - The Village has not maintained a fixed asset inventory to enable the presentation of this account group.

Total columns on the combined statements are captioned "memo only" to indicate that they are presented only to aid in financial analysis. Interfund eliminations have not been made in the aggregation of this data; therefore, it is not comparable to a consolidation.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types are presented using the flow of current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources.

The governmental fund types use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Village considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred.

Property taxes, State revenue sharing, interest, and special assessments are susceptible to accrual. Other receipts become measurable and available when cash is received by the Village and are recognized as revenue at that time.

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgetary Data

The Village adopted budgets for both the General Fund and Special Revenue Funds on the modified accrual basis. Once approved, the Village Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Encumbrance accounting is not used and all annual appropriations lapse at fiscal year-end. The original budgets are presented in these financial statements (no amendments were made).

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Assets, Liabilities, and Fund Equity

Cash and investments are reported at cost. For purposes of the statement of cash flows, the Village considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Restricted assets - Enterprise funds, because of certain bond covenants and local ordinances are required to establish and maintain prescribed amounts of resources (consisting of cash and temporary investments) that can be used for bond payments, or replacements or improvements for the system.

Fixed assets of the enterprise fund are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Estimated useful lives, in years, for depreciable assets are as follows:

Equipment	5-10
Wastewater Disposal System	40

Revenue, Expenditures, and Expenses

Property tax revenue is normally recognized in the amount for which taxes have been levied.

2. NONCOMPLIANCE WITH STATE BUDGETING LAWS

The following accounts had expenditures in excess of budgeted amounts in violation of Act 2 of Public Acts of 1968, as amended by Act 451 of Public Acts of 1982:

General Fund	<u>Budget</u>	<u>Expenditure</u>	<u>Over Budget</u>
Sanitary Landfill	\$ 5,000	\$ 5,435	\$ 435
Promotions	0	207	207
Payroll Tax	5,000	6,638	1,638
Dues & Subscriptions	0	415	415
Insurance - Health & Life	15,000	16,512	1,512
Miscellaneous Expense	2,200	2,293	93

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2004

3. CASH AND INVESTMENTS

The Village's bank deposits consist of the following at February 29, 2004:

Checking accounts	\$ 559,238
Certificates of Deposit and Savings Accounts	<u>463,244</u>
Total	<u>\$ 1,022,482</u>

The carrying amount of the Village's bank deposits was \$1,022,482 and the bank's balance was \$1,025,265 at February 29, 2004. Of the total bank balance, \$338,910 was covered by federal depository insurance and \$686,355 was uninsured.

State statutes authorize the Village to invest funds in one or more of the following: (a) bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; (b) certificates of deposit, savings accounts, deposit accounts, or depository receipts of a Federally insured financial institution which maintains a principal office or branch office in the state of Michigan; (c) commercial paper rated within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; (d) United States government or Federal agency obligation repurchase agreements; (e) banker's acceptance of United States banks; (f) obligations of the state of Michigan or any of its political subdivisions that are rated as investment grade by not less than one standard rating service; (g) mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles which are legal for investment by a public corporation; (h) obligations described above if purchased through an interlocal agreement under the Urban Cooperations Act of 1967; (i) investment pools organized under the Surplus Funds Investment Pool Act, 1982; (j) investment pools organized under the Local Government Investment Pool Act, 1985. As of February 29, 2004, the Village's investments are in accordance with statutory authority.

4. PROPERTY TAXES

Real estate and personal property taxes are recorded as revenue in an amount equal to the total taxes levied. There is no separate tax collection fund maintained, as all property taxes collected are deposited directly into the general fund. There are no provisions made for uncollectible taxes. The total levy for 2003 was 11.1502 mills all allocated to the general fund on a taxable value for real and personal property of \$6,145,431. The industrial facilities valuation was \$35,845.

Village properties are assessed as of December 31 (the lien date), taxes levied July 1 and are due without interest to October 1. The final collection date is the last day of February before real taxes are added to the county delinquent tax rolls. After three years, any unpaid taxes become a lien against the property. Personal property taxes unpaid continue to be collected by the Village Treasurer.

5. RESTRICTED ASSETS

Certain assets in the Sewer Fund are set aside and classified as restricted on the balance sheet because their use is limited by applicable bond covenants. The sewer replacement and sewer improvement accounts are used to segregate resources accumulated for further improvements, enlargements and extensions of the project. The "Debt Retirement Fund" account is used to account for resources to be used solely for the purpose of paying principal and interest on the bond when due.

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2004

6. SUMMARY OF PROPRIETARY FUND FIXED ASSETS

The following is a summary of Wastewater Disposal System fixed assets at February 29, 2004:

Land	\$ 35,062
Equipment	104,683
Wastewater Disposal System	2,324,906
Less: Accumulated Depreciation	<u>(728,472)</u>
Net Fixed Assets	<u>\$ 1,736,179</u>

7 INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables at February 29, 2004, are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 15,156	Major Street	\$ 15,156
General	2,598	Local Street	2,598
General	1,216	Waste Water Disposal	1,216
Local Street	<u>8,000</u>	General	<u>8,000</u>
	<u>\$ 26,970</u>		<u>\$ 26,970</u>

8. WASTEWATER DISPOSAL SYSTEM

In June, 1991, the Village Council passed a resolution to authorize the issuance and sale of a general obligation bond pursuant to Act 320, Public Acts of Michigan, 1927 as amended. The \$1,192,000 bond so authorized was for the purpose of paying costs of acquiring and constructing a Wastewater Collection, Treatment, and Disposal System for the Village in order to meet certain requirements of the Michigan Water Resources Commission and the Michigan Department of Natural Resources. The bond closing took place June 28, 1991. The single, fully registered, non-convertible bond in the denomination of \$1,192,000 is due in principal installments serially on November 1 of each year beginning in 1993 to the initial purchaser, Farmers Home Administration, an agency of the United States Department of Agriculture (FmHa). The interest rate on the bond is 5.875% and is due semi-annually May 1 and November 1 beginning with May 1, 1992. It should be noted that a portion of the total construction cost was paid from a \$1,151,155 grant from FmHa.

Maturities on the long-term debt are as follows (year 2005 and 2006 has been prepaid):

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 45,000	\$ 43,475	\$ 88,475
2008	45,000	40,831	85,831
2009	45,000	38,188	83,188
2010	50,000	35,250	85,250
2011	50,000	32,312	82,312
Thereafter	<u>515,000</u>	<u>151,575</u>	<u>666,575</u>
Total	<u>\$ 750,000</u>	<u>\$ 341,631</u>	<u>\$ 1,091,631</u>

The following is a summary of long-term debt transactions of the Village for the year:

	<u>Balance 3/1/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2/29/04</u>
General Obligation Bond	\$ 810,000	\$ 0	\$ 60,000	<u>\$ 750,000</u>

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2004

8. WASTEWATER DISPOSAL SYSTEM(continued)

Ordinance 1990-3, under the provisions of Act 94, P.A. of Michigan, 1933, as amended, provides for the operation, rates to be charged, connection charges and other matters relative to the Wastewater Disposal System. Connection charges are being billed to the benefiting property owners on a yearly tax levy with a fee of \$2,700 per single family residence equivalent. The fee is being spread over a 30-year period with interest (at 6.6% per annum) and constitutes a Special Assessment Roll. Reference should be made to the resolution and the ordinance for rate and additional information.

9. SEGMENT INFORMATION FOR PROPRIETARY FUND

The Village maintains a utility fund which provides wastewater collection, treatment, and disposal. Segment information for the years ended February 29, 2004 & 2003 are as follows:

	<u>2002-03</u>	<u>2003-04</u>
Operating Revenue	\$ 129,044	\$ 126,400
Depreciation Expense	70,264	70,761
Operating Income	35,140	26,824
Net Income (Loss)	(6,918)	(14,196)
Property, Plant and Equipment Additions	0	12,093
Net Working Capital	199,882	181,187
Total Assets	2,313,672	2,239,876
Bond Payable	810,000	750,000
Total Retained Earnings	335,894	321,698

9. RELATED PARTY TRANSACTIONS

It should be noted that George Russ, a member of the Village Council, received \$21,778 for services rendered to the Village as a Streets and Wastewater System employee.

10. RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Village has purchased commercial insurance for each of these areas of risk. There have been no significant reductions in insurance coverage, and settled claims have not exceeded the amount of insurance coverage in any of the past 3 years.

VILLAGE OF NORTH ADAMS
COMPARATIVE BALANCE SHEETS
PROPRIETARY FUND - WASTEWATER DISPOSAL SYSTEM
FEBRUARY 29, 2004 AND 2003

ASSETS

	2004	2003
Current Assets		
Cash in Bank	\$ 174,010	\$ 194,189
Accounts Receivable - User Fees	13,971	12,401
Delinquent Assessments Receivable	10,229	9,501
Due From Other Funds	<u>0</u>	<u>414</u>
Total Current Assets	<u>\$ 198,210</u>	<u>\$ 216,505</u>
Restricted Assets		
Debt Retirement Account	\$ 74	\$ 33
Replacement Account	1,264	1,251
Improvement Account	<u>304,149</u>	<u>301,036</u>
Total Restricted Assets	<u>\$ 305,487</u>	<u>\$ 302,320</u>
Fixed Assets		
Wastewater Disposal System	\$ 2,324,906	\$ 2,324,906
Equipment	104,683	92,590
Less: Accumulated Depreciation	<u>(728,472)</u>	<u>(657,711)</u>
Land	<u>\$ 1,701,117</u>	<u>\$ 1,759,785</u>
	<u>35,062</u>	<u>35,062</u>
Total Fixed Assets	<u>\$ 1,736,179</u>	<u>\$ 1,794,847</u>
Total Assets	<u>\$ 2,239,876</u>	<u>\$ 2,313,672</u>

LIABILITIES, CREDITS AND RETAINED EARNINGS

Liabilities		
Current Liabilities		
Due to General Fund	\$ 1,216	\$ 0
Current Portion - Long-Term Debt	0	0
Accounts Payable - Vendor	1,119	760
Accrued Interest Payable	<u>14,688</u>	<u>15,863</u>
Total Current Liabilities	<u>\$ 17,023</u>	<u>\$ 16,623</u>
Long-Term Debt		
Bonds Payable	\$ 750,000	\$ 810,000
Less: Current Portion (above)	<u>0</u>	<u>0</u>
Total Long-Term Debt	<u>\$ 750,000</u>	<u>\$ 810,000</u>
Total Liabilities	<u>\$ 767,023</u>	<u>\$ 826,623</u>
Other Credits		
Contributions in Aid of Construction - FmHa Grant	<u>\$ 1,151,155</u>	<u>\$ 1,151,155</u>
Retained Earnings	<u>\$ 321,698</u>	<u>\$ 335,894</u>
Total Liabilities, Credits, and Retained Earnings	<u>\$ 2,239,876</u>	<u>\$ 2,313,672</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF NORTH ADAMS
SCHEDULE OF BOND PAYABLE
PROPRIETARY FUND - WASTEWATER DISPOSAL SYSTEM
FEBRUARY 29, 2004

\$1,192,000

1991 Wastewater Disposal System Bond

(Limited Tax General Obligation)

Interest Rate = 5.875%

Year	Principal Due	Total
<u>Principal Due</u>	<u>November 1</u>	<u>Bond Payable</u>
2007	\$ 10,000	\$ 10,000
2008-2009	45,000	90,000
2010-2014	50,000	250,000
2015-2018	55,000	220,000
2019-2021	60,000	<u>180,000</u>
Total Bond Payable		<u>\$ 750,000</u>

Note: Interest is due on above obligation May 1 and November 1 of each year.

The accompanying notes are an integral part of this statement

Bailey, Hodshire
& Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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January 21, 2005

To the President and
Members of the Village Council
Village of North Adams
North Adams, MI 49262

As a result of our audit of the Village financial statements for the year ended February 29, 2004, we would like to make the following comments and recommendations:

1. The State Uniform Chart of Accounts should be better utilized to minimize use of the "miscellaneous" column for expenditures. The original classification of expenditures into proper budget categories will lessen accounting and audit time. Using separate ledgers for Cash Disbursements and Cash Receipts would allow room to break out more types of expenditures.
2. In June, 1999, the Governmental Accounting Standards Boards (GASB) approved GASB Statement No. 34, which made dramatic changes to the way local governments report their finances to the public. GASB No. 34 becomes effective in phases, based on the amount of the governmental unit's revenue. The Village will be required to implement these changes in fiscal year 2004-2005.
3. In 1997, PA 196 (amendment to PA 1943) Act 20 was passed which requires that an investment policy be adopted by every local government unit in Michigan. The policy was to be adopted by your Village Council on or before September 30, 1998. Since your Council has not acted to adopt such a policy, we, again, recommend that one be developed and adopted during the current fiscal year. We have a sample of the State-suggested format in our office.
4. Budgets should be reviewed and amended as necessary, throughout the year to eliminate over expenditures.
5. Payments should only be made from vendor invoices, not vendor statements, to eliminate over payments.

Some of these recommendations were also included in last year's audit, and some go back several years. It is imperative that action be taken on these recommendations now. If we can be of any assistance in implementing these recommendations, please contact our office.

Respectfully,

Bailey, Hodshire & Company, P.C.

Bailey, Hodshire & Company, P.C.
Certified Public Accountants